

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1246-01
Bill No.: HB 585
Subject: Taxation and Revenue - Sales and Use; Business and Commerce
Type: Original
Date: March 3, 2015

Bill Summary: This proposal would authorize a sales tax exemption for products that are made in the USA during the sales tax holiday in July with specified exceptions.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|----------------|---------------------------------------|---------------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | \$0 | (Could exceed \$4,331,800) | (Could exceed \$4,331,800) |
| Total Estimated Net Effect on General Revenue | \$0 | (Could exceed \$4,331,800) | (Could exceed \$4,331,800) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|---------------------------------------|---------------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| School District Trust | \$0 | (Could exceed \$3,065,221) | (Could exceed \$3,065,221) |
| Conservation Commission | \$0 | (Could exceed \$385,475) | (Could exceed \$385,475) |
| Parks, and Soil and Water | \$0 | (Could exceed \$308,377) | (Could exceed \$308,377) |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | (Could exceed \$3,759,073) | (Could exceed \$3,759,073) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

- ☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted this proposal would create a sales tax holiday for products "Made in USA" in 2016 and 2017. BAP officials assume the tax holiday would reduce Total State Revenue by \$7.9 million in FY 2017 and FY 2018. BAP officials also assume this proposal would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials noted that according to Federal Trade Commission guidelines, there are several categories of "Made in USA" products, including products that are entirely manufactured to those partially manufactured in the USA, and stated it is unclear from this proposal if only those products that are "all or virtually all made in the U.S." qualify for the sales tax holiday, or if a broader set of products would also qualify.

ASSUMPTION (continued)

BAP officials cited a study prepared by the San Francisco Federal Reserve which provides estimates of the proportion of personal consumption comprised by various product types, as well as what portion qualifies for the "Made in USA" exemption.

Using information from the Federal Reserve report, BAP officials calculated that 11.4% of annual sales other than food would qualify for the holiday. Since the proposed holiday would last for one week, approximately 1.9% of annual qualifying sales would be exempt, or 0.22% of annual sales. Finally, BAP officials noted in FY 2014, \$1,969 million of sales tax was collected for the General Revenue Fund. BAP officials assume this proposal would reduce General Revenue Fund sales tax revenues by $(0.22\% \times \$1,969,000,000) = \$4,331,800$.

Using the same information and including food sales, BAP officials calculated that 18.7% of annual sales would qualify for the holiday. Again, since the proposed holiday would last for one week, BAP officials assumes 1.9% of annual qualifying sales would be exempt, or $(18.7\% \times 1.9\%) = 0.36\%$ of annual sales.

Oversight notes this calculation would provide an estimate of the reduction in sales tax revenues for other state funds that receive sales tax revenues, as follows.

| Fund | 2014 Revenues * | Calculated Reduction |
|---|-----------------|----------------------|
| School District Trust | \$851,450,221 | \$3,065,221 |
| Conservation Commission | \$107,076,440 | \$385,475 |
| Parks, and Soil and Water | \$85,660,149 | \$308,377 |
| * Reported by the Department of Revenue | | |

Oversight assumes the sales tax holiday could potentially influence the timing of larger purchases, resulting in revenue reductions larger than the BAP calculations. Oversight notes the revenue reduction could exceed the amounts calculated for the General Revenue Fund and for those other state funds which receive sales tax revenues, and will indicate a revenue reduction which could exceed the amounts calculated.

ASSUMPTION (continued)

Oversight will not indicate a fiscal impact to road and transportation funds since motor vehicle sales are not eligible for the sales tax exemption, and will not indicate a revenue reduction for local governments since local government adoption of the sales tax holiday would be optional.

Officials from the **Department of Revenue (DOR)** assume this proposal would, beginning January 1, 2016, but ending December 31, 2017, provide a state sales tax exemption for retail sales of any "Made in USA" product during a seven day period beginning on July first and ending on July seventh, unless July first is a Sunday. If July first is a Sunday, the seven-day period would begin on July second and end on July eighth. The exemption provided in this section would only apply to the first \$15,000 of each purchase of a "Made in USA" product, and dispensed fuel would not be exempted from sales tax.

DOR officials stated they were not able to determine the amount of "Made in USA" product sales tax that is included in the total amount of sales tax reported. Based on \$3.332 billion in state sales and use tax collections for fiscal year 2014, the Department estimated daily sales and use tax collections are \$9.1 million. Providing an exemption for "Made in USA" products for a seven day period could result in an overall reduction of Total State Revenue of \$63.9 million; however, this estimate may be greatly overstated because this estimate includes products made outside of the USA. DOR officials assume the Office of Administration - Division of Budget and Planning may be able to provide more precise numbers.

Administrative Impact

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Revenue Processing Technicians I for additional file maintenance and contacts. Each technician would require CARES equipment and license.

Sales Tax

DOR officials also assume the Department would requires programming to establish an item tax reported on a separate sales tax holiday line on taxpayer's returns for political subdivisions that do not participate in the holiday.

ASSUMPTION (continued)

DOR officials also noted this Sales Tax Holiday would impact two filing periods (July Monthly Returns and July-September Quarterly returns). Because businesses must differentiate sales tax collected in political subdivisions that do not participate, the proposal could potentially eliminate a substantial volume of the July - One and Two Location Voucher returns and the Quarterly July-September - One and Two Location Voucher Returns that can be processed without manual intervention. This would require additional hand keying by Department staff and would add to the complexity of filing for the impacted businesses.

DOR officials assume the Department would need to notify approximately 1,500 cities, counties, and districts how to participate in the holiday; resulting in mailing and printing costs.

| | | |
|-----------|-------------------------|-----------------|
| Letters | $\$0.025 \times 1500 =$ | \$37.50 |
| Envelopes | $\$0.040 \times 1500 =$ | 60.00 |
| Postage | $\$0.490 \times 1500 =$ | <u>735.00</u> |
| Total | $\$0.555 \times 1500 =$ | <u>\$832.50</u> |

Each year, the Department would send approximately 20,000 businesses a holiday notification informing them how to collect and report holiday related sales tax for locals only and how to report the exemption on their return.

| | | |
|-----------|---------------------------|--------------------|
| Letters | $\$0.025 \times 20,000 =$ | \$500.00 |
| Envelopes | $\$0.040 \times 20,000 =$ | 800.00 |
| Postage | $\$0.490 \times 20,000 =$ | <u>\$9,800.00</u> |
| Total | $\$0.555 \times 20,000 =$ | <u>\$11,100.00</u> |

DOR officials assume Sales Tax would require one additional Revenue Processing Technician I (Range 10, Step L) to process refund claims.

Integrated Revenue System

DOR officials assume a new item code and business notification templates would be required.

ASSUMPTION (continued)

Summary

In total, the DOR estimate of cost to implement this proposal including three additional employees and the related benefits, equipment, mailings, and other expense totaled \$135,183 for FY 2016, \$138,361 for FY 2017, and \$127,440 for FY 2018.

Oversight assumes the notifications to cities and to retail licensees would be included in regular DOR communications; therefore, the Department of Revenue would not incur any significant additional cost for those notifications.

Oversight notes this proposal would provide two brief sales tax holidays; the first week of July in 2016 (FY 2017) and 2017 (FY 2018). Although the holidays could result in consumers delaying purchases for a limited time before the holiday, Oversight will assume the holidays would only impact taxable sales in FY 2017 and FY 2018. Accordingly, Oversight assumes any additional cost to DOR from this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown negative fiscal impact to their organization, but greater than \$100,000. MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** deferred to the Department of Revenue and Office of Administration - Division of Budget and Planning for a more detailed account of the fiscal impact of this proposal.

Officials from **St. Louis County** stated the county does not plan to participate in the sales tax holiday and since the proposal is not mandatory for local governments, **Oversight** assumes there would be no impact on the county.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Platte County Board of Elections** assume this proposal would have no impact on their organizations.

ASSUMPTION (continued)

Not responding

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kansas City, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, Shelby, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

| <u>FISCAL IMPACT - State Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|---|---------------------|--|--|
| GENERAL REVENUE FUND | | | |
| <u>Revenue reduction</u> | | | |
| Sales tax holiday | | (Could exceed | (Could exceed |
| Section 144.059 | <u>\$0</u> | <u>\$4,331,800)</u> | <u>\$4,331,800)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>\$0</u> | (Could exceed <u>\$4,331,800)</u> | (Could exceed <u>\$4,331,800)</u> |

FISCAL IMPACT - State Government
 (Continued)

FY 2016
 (10 Mo.)

FY 2017

FY 2018

SCHOOL DISTRICT TRUST FUND

Revenue reduction - DOR

| | | | |
|-------------------|------------|---------------------|---------------------|
| Sales tax holiday | | (Could exceed | (Could exceed |
| Section 144.059 | <u>\$0</u> | <u>\$3,065,221)</u> | <u>\$3,065,221)</u> |

**ESTIMATED NET EFFECT ON
 SCHOOL DISTRICT TRUST FUND**

| | | |
|-------------------|----------------------------|----------------------------|
| <u>\$0</u> | (Could exceed | (Could exceed |
| | <u>\$3,065,221)</u> | <u>\$3,065,221)</u> |

**CONSERVATION COMMISSION
 FUND**

Revenue reduction

| | | | |
|-------------------|------------|-------------------|-------------------|
| Sales tax holiday | | (Could exceed | (Could exceed |
| Section 144.059 | <u>\$0</u> | <u>\$385,475)</u> | <u>\$385,475)</u> |

**ESTIMATED NET EFFECT ON
 CONSERVATION COMMISSION
 FUND**

| | | |
|-------------------|--------------------------|--------------------------|
| <u>\$0</u> | (Could exceed | (Could exceed |
| | <u>\$385,475)</u> | <u>\$385,475)</u> |

**PARKS, AND SOIL AND WATER
 FUNDS**

Revenue reduction

| | | | |
|-------------------|------------|-------------------|-------------------|
| Sales tax holiday | | (Could exceed | (Could exceed |
| Section 144.059 | <u>\$0</u> | <u>\$308,377)</u> | <u>\$308,377)</u> |

**ESTIMATED NET EFFECT ON
 PARKS, AND SOIL AND WATER
 FUNDS**

| | | |
|-------------------|--------------------------|--------------------------|
| <u>\$0</u> | (Could exceed | (Could exceed |
| | <u>\$308,377)</u> | <u>\$308,377)</u> |

FISCAL IMPACT - Local Government

FY 2016
(10 Mo.)

FY 2017

FY 2018

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

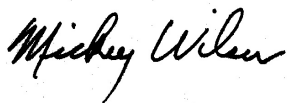
FISCAL DESCRIPTION

This proposal would authorize a sales tax exemption for products that are made in the USA during the sales tax holiday in July with specified exceptions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
St. Louis County
Platte County Board of Elections



Mickey Wilson, CPA
Director

Ross Strobe
Assistant Director

L.R. No. 1246-01
Bill No. HB 585
Page 11 of 11
March 3, 2015

March 3, 2015

March 3, 2015